

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2006-97-WS

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IN RE:

Application of Tega Cay Water
Service, Inc. for adjustment of
rates and charges and modifications to
certain terms and conditions for the
provision of water and sewer service.

**REBUTTAL TESTIMONY
OF
CONVERSE CHELLIS**

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Converse A. Chellis, III. I am a Certified Public Accountant ("CPA") and a principal in and the Director of Litigation Services and Property Tax Services for Gamble Givens & Moody, LLC, a public accounting firm with offices in Charleston, Kiawah Island, Mt. Pleasant, and Summerville, South Carolina. My office is located at 133 East First North Street, Suite 9, Summerville, South Carolina 29483.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. In 1965, I graduated from The Citadel, The Military College of South Carolina with a bachelor's degree in business administration. I also have completed some graduate courses in accounting at the University of Georgia. In addition, I have had a minimum of forty (40) hours of continuing professional education ("CPE") each year since 1969, for a total of at least 1,440 total CPE hours.

1 **Q. PLEASE DESCRIBE YOUR WORK HISTORY AND PROFESSIONAL**
2 **EXPERIENCE PRIOR TO YOUR CURRENT POSITION.**

3 **A.** Upon graduation from The Citadel in 1965, I served in the United States Air
4 Force and was assigned to the Auditor General's staff. In 1969, I joined Touche Ross
5 (now Deloitte and Touche) and was a senior accountant. I formed Chellis and Chellis in
6 1972, and have been a name partner and managing partner in several accounting firms
7 until 1998. In 1999, I merged my firm with Gamble Givens & Moody, where I am a
8 principal and Director of Litigation Services.

9
10 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ASSOCIATIONS?**

11 **A.** Yes. I am a member of the American Institute of Certified Public Accountants
12 ("AICPA"). From 1983-1985, I served on AICPA's continuing education executive
13 committee, and in 1985 I served on the AICPA council.

14 I am also a member of the South Carolina Association of Certified Public
15 Accountants ("SCACPA"). I served as Vice-President of the SCACPA's Coastal Chapter
16 in 1977-78 and as President in 1978-79. In 1985 I served as the State President of the
17 SCACPA, having previously served on the state level as Vice-President,
18 Secretary/Treasurer, and Director. I have also been Chairman of the SCACPA's
19 Committee on Continuing Professional Education, Chairman and trustee for the
20 SCACPA's educational fund, and Chairman of the SCACPA's Committee on
21 Cooperation with Governmental Agencies.

22 From 1986-1994, I was a member of the State Board of Accountancy, where I
23 served as Secretary/Treasurer from 1988-1990 and Chairman from 1990-1993.

1 From 1982-1998, I was a member of Accounting Firms Associates, Inc. I am also
2 a past member of the American Society of Appraisers, and a current member of the
3 American College of Forensic Examiners. In addition, I am a past associate in the
4 Municipal Finance Officers Association, and I have held various offices in the National
5 Association of Accountants. I am also active in the peer review process, which involves
6 examination of the work of other accountants and accounting firms to assure that quality
7 controls are being applied in conformance with the Quality Control Standards adopted by
8 the AICPA.

9
10 **Q. HAVE YOU EVER GIVEN ANY PRESENTATIONS TO OTHER**
11 **ACCOUNTANTS OR AUDITORS?**

12 **A.**Yes. I have been a speaker and an instructor for the accounting profession on a
13 number of accounting topics, including generally accepted accounting principles
14 ("GAAP") related topics.

15
16 **Q. HAVE YOU EVER BEEN QUALIFIED AS AN EXPERT WITNESS IN A SOUTH**
17 **CAROLINA COURT?**

18 **A.**Yes. I have been qualified as an expert witness in both the circuit and family
19 courts of South Carolina. I have also previously testified before this Commission
20 offering opinions on regulatory accounting issues.

21
22 **Q. WHY ARE YOU OFFERING REBUTTAL TESTIMONY IN THIS CASE?**

1 **A.** I have been asked by Tega Cay Water Service, Inc., or TCWS, to provide
2 comments on ORS's testimony filed in this matter. Specifically, I will discuss my
3 opinions on ORS's rejection of the Plant Acquisition Adjustment requested by TCWS.
4

5 **Q. WHAT KEY DOCUMENTS OR MATERIALS DID YOU CONSIDER IN**
6 **REACHING YOUR OPINIONS?**

7 **A.** I have reviewed records of TCWS and the Commission, the pre-filed direct
8 testimony of the Company's Senior Regulatory Accountant, Lena Sunardio, the pre-filed
9 rebuttal testimony of the Company's Chief Regulatory Officer, Steve Lubertozi, and the
10 pre-filed direct testimony of Daniel Sullivan on behalf of ORS. With respect to my
11 opinion regarding the appropriateness of a plant acquisition adjustment, I have reviewed
12 materials prepared by John McClellan, C.P.A. providing a state-by-state analysis of the
13 practices of the various state regulatory commissions regarding plant acquisition
14 adjustments, a survey of regulatory decisions since Mr. McClellan completed his
15 research, and various regulatory accounting literature including Accounting for Public
16 Utilities, a treatise authored and edited by principals of Deloitte & Touche, LLP, and The
17 Process of Ratemaking, authored by Leonard L. Goodman.
18

19 **Q. WHAT IS A PLANT ACQUISITION ADJUSTMENT?**

20 **A.** A Plant Acquisition Adjustment, or "PAA," is a regulatory accounting adjustment
21 which serves to maintain identification of the net original cost of purchased systems and
22 to separately identify the difference between the original cost and the cost of acquisition
23 for treatment as the regulator may prescribe or permit.

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Q. HAS TCWS PREVIOUSLY BEEN ALLOWED TO IMPLEMENT A PAA?

A. No. It is my understanding that in TCWS’s last rate case, the company did not request that a PAA be allowed. However, in that proceeding, the Company was requesting rates be set pursuant to the operating margin methodology and allowance of a PAA was not needed. The Commission has previously utilized operating margin which is determined by dividing the net operating income for return by the total operating revenues of the utility. Therefore, a return on investment was not considered in setting rates in that situation.

Q. WHY IS THIS APPLICATION FOR AN INCREASE IN RATES DIFFERENT FROM THE 1996 APPLICATION?

A. In the current rate case, TCWS has requested that its rates be set pursuant to a return on rate base methodology, which would allow it to earn a return on its investments devoted to public utility service. TCWS clearly made an investment when it acquired its water and sewer systems and should be allowed to earn an appropriate return on that investment. To disallow a portion of that investment sends the message that utilities are not able to fully realize a return on their investments in utility systems. This would have a chilling effect on investment in the infrastructure of our water and wastewater systems in South Carolina and, ultimately, will impact consumers.

Q. IN YOUR OPINION, WOULD SUCH A MESSAGE BE IN THE PUBLIC INTEREST?

1 **A.** No, it would not. It is my understanding that S.C. Code Ann. Section 58-4-10
2 defines the term ‘public interest’ to specifically include economic development in South
3 Carolina. In this instance, TCWS invested actual dollars in this state when it purchased
4 these systems. If companies are not allowed to earn a reasonable return on those types of
5 investments, it will impact their future consideration of opportunities to acquire water and
6 wastewater utility systems. In turn, a negative influence on real estate development could
7 result as developers may find a shrinking market of utilities willing to acquire systems
8 and provide professional operations and management. This outcome will not encourage
9 economic development – it will discourage it and clearly will not be supportive of the
10 public interest.

11
12 **Q. HAVE YOU FORMED AN OPINION AS TO WHETHER THE PROPOSED PAA**
13 **IS APPROPRIATE IN THIS CASE?**

14 **A.** Yes. In my professional opinion, a PAA is appropriate in this case. The majority
15 of public utility commissions in the United States have allowed these types of
16 adjustments under appropriate circumstances. It is my opinion that such circumstances
17 are present here.

18
19 **Q. WHAT ARE THE CIRCUMSTANCES REGULATORS REQUIRE IN ORDER**
20 **TO APPROVE PLANT ACQUISITION ADJUSTMENTS?**

21 **A.** As I mentioned, I have reviewed the conclusions resulting from comprehensive
22 research performed in 1998 by John McClellan, a certified public accountant with
23 significant regulatory accounting experience who formerly served as a managing partner

1 of Deloitte & Touche. His research identified 105 rate decisions spanning approximately
2 50 years that address the ratemaking treatment of recorded acquisition adjustments. *See*
3 CACIII Rebuttal Exhibit 1. Mr. McClellan concluded that the decisions have varied as to
4 the treatment of acquisition costs in rate base and cost amortization allowances in
5 developing revenue requirements under cost of service ratemaking concepts. In most
6 instances the PAA amounts have been allowed for ratemaking purposes. In about two-
7 thirds of the cases he reviewed (67 of 105), the acquisition premiums were allowed in the
8 rate base (i.e., return on the investment) and/or as an allowable cost amortization (i.e.,
9 return of the investment). In the other one-third (38 of 105), the excess acquisition costs
10 were disallowed. Where cost recovery was permitted, Mr. McLellan found that the most
11 commonly cited grounds were that one or more of the following circumstances existed:

- 12 (1) The acquisition is determined to be the result of arm's length bargaining.
- 13 (2) The acquisition represents an integration of facilities that will better provide
14 utility services.
- 15 (3) The acquisition will result in operating efficiencies that offset the effects of the
16 excess of purchase cost over original cost.
- 17 (4) The terms of the acquisition agreement receive prior regulatory approval.

18 These grounds are consistent with those identified in *Accounting for Public Utilities*, §
19 4.04[2] at page 10. Additionally, I have reviewed a survey of thirty four cases
20 subsequent to Mr. McClellan's original research in which utility commissions of various
21 states reviewed requests by utilities to include, or the commissions themselves made, a
22 PAA for ratemaking purposes. This survey, which includes three decisions of the Public
23 Service Commission of South Carolina, reflects that in twenty five of these cases a

1 positive PAA was permitted for ratemaking purposes and in seven of these cases a PAA
2 was either disallowed or only a negative PAA imposed. *See* CACIII Rebuttal Exhibit 2.
3 As Mr. Lubertozi discusses in his rebuttal testimony, the South Carolina cases in which
4 he was involved resulted in both positive and negative PAAs being accepted.

5
6 **Q. ARE ANY OF THESE CIRCUMSTANCES PRESENT IN THE INSTANT CASE?**

7 **A.** Yes. While the presence of all of these circumstances is not a requirement, all
8 four of them are in fact present in this case. First and foremost, TCWS acquired two
9 systems, pursuant to Order No. 91-1052 in Docket No. 91-453-W/S and Order No. 95-
10 1209 in Docket No. 95-660-W, which are the subject of the plant acquisition adjustment.
11 The acquisitions were the result of asset purchases negotiated through arm's length
12 bargaining. These were not transactions between affiliates. The relationship between
13 TCWS and the previous owners of these systems and the conditions underlying the
14 transactions leave no doubt that the property acquisitions were completed under
15 conditions of arm's length bargaining and that economic substance does in fact underlie
16 those acquisitions.

17 With regard to the second and third circumstances, the acquisition of these assets
18 by TCWS has integrated these facilities resulting in the provision of better utility
19 services, as well as providing operating efficiencies that offset the effect of the excess of
20 purchase cost over original cost. The acquisition of these systems by TCWS resulted in a
21 large utility company with a strong presence in South Carolina and a stable financial
22 structure taking over water and sewer systems that were up to that point in time being
23 operated by a developer and by a small company that lacked the financial resources and

1 professional experience needed to maintain a compliant system and provide reliable,
2 quality service to its customers. Also, TCWS's parent, Utilities, Inc., has been in the
3 utility business for over thirty years and provides water and/or sewer service to over
4 243,000 customers in seventeen states.

5 The fourth circumstance which public utility commissions generally rely upon for
6 allowing a PAA is present in this case as well, since the transactions at issue received
7 prior regulatory approval from this Commission. In Order No. 91-1052 in Docket No.
8 91-453-W/S, the Commission approved the transfer of the assets of Tega Cay Utilities,
9 Inc. to TCWS finding at page 4 of its order that TCWS was "fit, willing and able to
10 operate the water and sewer systems in Tega Cay and that the transfer of the water and
11 wastewater systems presently owned by TCU, Inc. to Tega Cay Water Service, Inc.
12 should be approved." Similarly, the Commission found on page 3 of Order No. 95-1209
13 in Docket No. 95-660-W, that the transfer of the River Pines water system to TCWS was
14 "in the public interest" and that the transfer should be granted.

15 Thus, all of the circumstances traditionally relied upon to allow recovery of a
16 PAA exist with respect to the acquisition of the assets by TCWS. Therefore, a PAA in
17 this case should be approved.

18
19 **Q. HAS THE COMMISSION PREVIOUSLY ACCEPTED PLANT ACQUISITION**
20 **ADJUSTMENTS FOR RATEMAKING PURPOSES?**

21 **A.** Yes. As noted by Mr. Lubertozi, in the last two rate cases involving Carolina
22 Water Service, Inc. ("CWS") in Docket Numbers 2000-207-W/S and 2004-357-W/S, the
23 Commission accepted, in both rate base and expenses, negative and positive plant

1 acquisition adjustments.

2

3 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

4 **A.** Yes, it does.

ACQUISITION ADJUSTMENTS

SUMMARY OF RULINGS

4/18/98

RECOVERY OF EXCESS COSTS ALLOWED (IN PART OR IN TOTAL)

Alabama Power/FPC

The treatment of the acquisition adjustment was determined by the state regulatory allowance. The purchase price had been recognized by the state and was allowed by the FPC.

89 PUR 3d 473 1971

Alabama\Alabama Power Co

Investment included "as a consistent policy of the Commission."

97 PUR 3d 371 12/13/72

Alabama Power/FPC

The review court found that the evidence did not support the FPC's refusal to include the Acquisition Adjustment in the rate base and remanded the case.

1 PUR 4th 367 1973

Alabama\Alabama Gas Corp

Amortization allowed (reason not stated)

25 PUR 3d 23 1958

Arizona/Southwest Gas Co.

Acquisition adjustment allowed (from D&T internal Memo)

Arkansas Supreme Ct.\(ARKLA case?)

Supported Commission in allowing in rate base when arm's
length bargaining was determined

18 PUR 3d 13 1957

Arkansas\Arkansas Louisiana Gas Co.

Allowed in rate base and amortized (reasons not stated)

97 PUR NS 67 1952

Arkansas\Arkansas Power & Light

Allowed investment because prudent, benefit to the public,
and unrecouped by the Company.

55 PUR NS 129 1944

Arkansas\Arkansas Power & Light

Investment included (reason not stated)

13 PUR 3d 1 1956

Arkansas\ARKLA

Amortization allowed when investment is allowable in rate
base

10 PUR 3d 407 1955

California\Southern Cal. Edison

Amortization allowed, but investment excluded (reasons not stated)

6 PUR 3d 161 1954

California\PG&E

Amortization allowed (reason not stated)

96 PUR NS 493 1952

California\PG&E

Amortization allowed when Company waived a claim of rate base treatment

Decision No 45759 5/29/51

Canada\Calgary Power

Allowed acquisition adjustment since the element to be used in the rate base was determined to include the acquisition cost to the user.

.U.340-1 6/29/73

Colorado\Plateau Natural Gas

Investment disallowed but amortization was allowed (reasons not stated)

30 PUR 3d 391 1959

Colorado\Public Service of Col.

Included (reason not stated)

34 PUR 3d 186 1960

FPC\Alabama Power Co

Decision remanded to FPC on appeal to courts when disallowed. Remanded due to lack of evidence supporting disallowance.

482 F2d 1208 7/31/73

FPC\Alabama Power Co.

Investment allowed for allocation purposes, since allowed in the rate base by the state jurisdiction

Opinion No. 596 6/7/71

Florida\Broward Water Supply

A/A should be included where at arm's length bargaining

76 PUR 3d 161 1968

Florida\Southern Bell Tel.

Investment allowed due to arm's length bargaining

91 PUR NS 97 1951

Florida\Peoples Gas System

Investment allowed because "In this case the utility is entitled to recognition of an acquisition adjustment".

45 PUR 3d 449 1962

Florida\Jacksonville Gas Company

Investment included in rate base and amortized being arm's length and as prudent

40 PUR 3d 372 1961

Georgia\Southern Bell Tel.

The unamortized balance of plant Acquisition Adjustment was recognized as legitimate and was included in the rate base "where it represented and actual investment made at arms length bargaining."

91 PUR NS 97 1951

Georgia\Gas Light Company of Columbus

Investment and amortization allowed where such an acquisition did not represent an imprudent investment.

8 PUR 3d 487 1955

Georgia\Georgia Power

Investment allowed as a more accurate picture of the prudent investment

Docket 8948-A 11/22/48

Illinois Sup. Ct.\Preston Util. Corp.

Only O/C allowed

236 NF2d 714 1968

Idaho\Boise Water Co.

Credit A/A deducted

59 PUR 3d 86 1965

Idaho\Washington Water Power

Allowed due to arm's length bargaining

33PUR 3d 88 1960

Iowa\Interstate Power Co.

A/A allowed in rate base due to demonstrated benefit (i.e., lower rates) and "to disallow recovery of the acquisition adjustment in rate base would be to sacrifice the ratepayer for the sake of unwaivering adherence to a principle and the customers benefited by increased purchase capacity and reduced fuel and operating costs."

Dkt ARU 83-1 11/4/83

Kansas\KPL

Gas Service Co. acquisition at less than book was not used to reduce R/B, but the amortization credit was used to offset rates.

Kentucky\Lexington Water

Deducted negative A/A from rate base

73 PUR3d 253 1968

Kentucky\Kentucky Telephone

Amortization of the acquisition adjustment was allowed where the investment was included in the rate base

91 PUR NS 507 1951

Louisiana\La. Power & Light

Allowed investment due to arm's length bargaining, and it resulted in a more efficient system and in improved service or lower rates

65 PUR NS 18 1946

Louisiana\LP&L

Rate base and amortization allowed because of arm's length, necessary to system integration for efficiency, improved service, and lowered rates.

65 PUR(NS)23 1946

Maine\Northern Utilities

Allowed amortization over a 15 year period

Docket 80-77 1/14/71

Maine\Central Maine Power Co.

Describes A/A as prudent, allowing in investment and amortizing

29 PUR 3d 113 1959

Nevada\Henderson Tel. Co.

Credit A/A deducted from rate base

36 PUR3d 36 1961

New Hampshire\Pub.Serv. of N.H.

Allowed investment of premium in acquiring Seabrook as a regulatory asset that served the public interest. Also allowed, with cost cap limits an "investment adder".

DR 89-44 7/20/90

New Hampshire\Public Service of N.H.

Allowed investment as the proper cost in rate base

27 PUR 3d 12 1959

New Jersey\PSE&G

A/A deducted from rate base (credit amount?)

36 PUR3d 135 1960

New Jersey\N.J. Water Service Co.

A/A allowed because of other expenditures to plant that could not be fully documented.

68 PUR3d 430 1967

New Mexico

Practice is to allow the excess over original cost (i.e., acquisition adjustments).

(NARUC 1983 Annual Report on Utility Regulation)

North Carolina\Duke Power

Amortization allowed, but investment disallowed as a cost sharing measure.

26 PUR 4th 241 1978

North Carolina\Duke Power

Investment allowed due to arm's length bargaining

Docket E-7 4/16/52

North Carolina\Public Serv.of N.C.

Included in rate base due to customer benefits

55PUR 4th 53 9183

North Dakota

Allows excess over original cost

(NARUC 18983 Annual Report on Utility Regulation

Oregon\Pacific Tel & Tel

Investment included since the rate base was determined by
adding the acquisition adjustment.

73 PUR NS 16 1948

Pennsylvania\PP&L

Amortization allowed

89 PUR NS 432 1951

Pennsylvania\PP&L

Consideration "inherently" given to A/A in other measures of
rate base

14 PUR3d 438 1956

Pennsylvania\Duquesne Lighting

Allowed amortization due to arm's length transaction

Docket 14968

Pennsylvania Electric vs National Forge and Ordinance

Allowed acquisition adjustment where the purchase was at arm's length

99 PUR NS 161 1953

Pennsylvania\Penn. Electric Co

Investment included and amortization allowed due to arm's length bargaining

99 PUR NS 10 6/26/51

Rhode Island\Providence Gas Co.

Used O/C rate base when negative A/A existed, but required amortization of credit to C/O/S

376 A.2d 687 1977

Tennessee\United Intermountain Tel.

Investment and amortization allowed due to purchase being in the best interests of the public

79 PUR 3d 499 8/1/69

Texas\Hooks Water Co.

The principle was established the inclusion would not be permitted in rate base, but that if the price were reasonable and "specific and offsetting benefits had accrued to ratepayer" that amortization would be allowed.

Texas\Siesta Water

Allowed amortization because of ratepayer benefits

7 PUC Bull 603

Utah\UP&L

Amortization allowed but A/A excluded because of insufficient evidence of benefits. This transaction related to payments by UPL to CP National to offset the tax costs incurred by CP in the sale.

53 PUR 4th 461 1983

Utah\Utah Power & Light

Investment allowed, but amortization disallowed (reasons not stated)

48 PUR 3d 153 1962

Utah\UP&L

Amortization of acquisition adjustment was allowed using a 12 year period of amortization

95 PUR NS 390 1952

Vermont\Towne Hill Water Co

Investment allowed when costs not shown to be excessive

422 A2nd 927 1980

Vermont\Vermont Gas Systems

Investment allowed because original cost consider to be cost incurred by purchasing utility and prudent investment assumed

100 PUR 3rd 209 1973

Vermont\Gas Company of Vt.

Credit A/A used

26 PUR4th 155 1978

Va. Supreme Ct.

Supported VEPCO inclusion of investment and amortization of costs when acquired at arm's length bargaining and was prudent

8 PUR 3d 120 1955

Virginia\VEPCO

Allowed A/A because of arm's length bargaining and benefits to ratepayers

PUE 850062 5/21/86

Virginia/VEPCO

Amortization allowed due to arm's length bargaining and "since the purchase was made prudently for the benefit of customers and the utility."

9 PUR 3d 225 1953

Washington\Cascade Natural Gas

Investment included, and amortization allowed, when the result was a benefit to ratepayers

Cause No, U-71-34 6/2/72

Washington\Wash. Water Power

Allowed investment because of improved service, added generation and transmission capacities and increased load

diversification, and the result of improved service or
lowered rates

98 PUR NS 12

1953

SUMMARY OF RULINGS

RECOVERY OF EXCESS COSTS DENIED

Alberta\Canadian Utilities

Excluded to limit to original cost

80PUR 3d 385 1969

California\Southern Cal Edison

Disallowed in favor of O/C

6 PUR 3d 161 1954

California\Pacific Power & Light

A/A disallowed

19 PUR 4th 37 1977

California\Cal. Water & Teleg. Co.

A/A disallowed

Decision 70418 3/8/66

Colorado\Mtn. States Tel

Not properly includable

1 PUR 3d 129 1953

Colorado\Mtn. States Tel

Not properly includable

76 PUR 3d 481 1969

FCC\ Television Relay Inc.

A/A disallowed because company did not "establish with some specificity that the public interest will be served to a degree that will offset" the added costs

19 PUR 4th 191 1977

FERC\Montana Power Co.

Disallowed (reason not stated)

31 PUR 4th 191 1979

Idaho\UPL

Disallowed the A/A that resulted from payment for CP National's tax costs on the sale. The benefits were limited and did not warrant assessing the ratepayers.

49PUR 4th 169 1982

Idaho\Idaho Tele. Co.

Not allowed because not financed with common equity

52 PUR 3d 432 1963

Idaho\Davenport Water Co

Principles established that excess payment must produce actual benefit if to be in rate base - rejected in this case

76 PUR 3d 209 1968

Illinois\Ill. Bell Tel.

Excluded

7 PUR 3d93 1955

Indiana\Indiana Gas & Water

Disallowed as booked without cost to Company

2 PUR 3d 184 1953

Indiana\Southern Indiana Gas

Disallowed

38 PUR3d 177 1960

Iowa\Gen.Tel of Midwest

A/A excluded since excess payments were "not expended for tangible assets."

3 PUR 4th 113 1974

Iowa\Hawkeye State Tel.

Excluded from rate base due to failure to show ratepayer benefits

2 PUR 4th 166 1973

Iowa\Iowa Telephone Co.

Did not meet standard that requires "improvements" as a result of the added expenditures.

95 PUR3d 221 1972

Kansas\Southwestern Bell

Disallowed

19 PUR4th 1 1977

Louisiana\ARKLA

Disallowed because of lack of benefit to La. customers

88 PUR3d 59

Louisiana\United Gas Pipeline

Excluded from rate base

42 PUR3d 120 1961

Maine\Central Maine Power

Excluded A/A due to lack of support of benefit

29 PUR3d 113 1959

Missouri\Jefferson County Sewer Co

Disallowed A/A

87 PUR3d 392 1971

Montana Supreme Ct.\Montana Power Co.

Commission free to disallow

590 P2d 1140 1979

Nebraska\Cornhusker State Tel

A/A disallowed

Appl. 23723 11/28/62

New Jersey\New Jersey Water Co.

Disallowed A/A

71 PUR3d 113 1967

New Jersey\Monmouth Consol. Water

Disallowed as benefiting investors rather than customers

75 PUR3d 223 1968

New Jersey\Ocean City Water Service

Disallowed due to lack of supporting documentation

75 PUR3d 472 1968

New York\Utilities & Industries Corp

A/A disallowed

43 PUR3d 330 1962

North Carolina\N.C. Telephone Co.

Disallowed

35 PUR3d 88 1960

Ohio\Dayton P&L

Excluded

21 PUR4th 376 1977

Oregon\Portland General Electric

Excluded

32 PUR3d 497 1960

Rhode Island\Narragansett Electric

Disallow when of no benefit to customers

21 PUR3d 113 1957

Texas\United Cities Gas

Disallowed A/A because of concern over a "bidding war" result. Also, United Cities' motives questioned.

67 PUR 4th 413 1985

Texas\Central Tel. of Texas (Centrex)

Disallowed expense because of failure to show specific benefits

7 Tex PUC Bull 185 1/20/81

Washington\General Tel of the NW

Excluded due to lack of evidence to support

30 PUR3d 145 1959

Washington\Northwest Gas Co.

Excluded where benefits not shown

32 PUR3d 355 1960

Washington\Pacific Power & Light

Excluded where benefits not shown

33 PUR3d 433 1960

Washington\Continental Telephone Co.

Denied where excess represented goodwill, and as such, was of no value to the ratepayers

14 PUR 4th 276 1976

State	Case	PAA Treatment
AL	2003 Ala. PUC LEXIS 367	PAA included in rate base
AL	2001 Ala. PUC LEXIS 942	PAA included in rate base
AK	2004 Alas. PUC LEXIS 364	PAA included in rate base
AZ	2002 Ariz. PUC LEXIS 1	PAA included in rate base
AZ	2001 Ariz. PUC LEXIS 19; 213 P.U.R.4th 53	PAA included in rate base
CT	2001 Conn. PUC LEXIS 88; 210 P.U.R.4th 27	Amortized PAA; not included in rate base
CT	2000 Conn. PUC LEXIS 394	Amortized PAA; not included in rate base
FL	2004 Fla. PUC LEXIS 1054	Allowed cost to utility over original cost to be included in rate base
FL	2000 Fla. PUC LEXIS 754	Did not allow second PAA adjustment
ID	2000 Ida. PUC LEXIS 249	Allowed PAA in rate base
ID	1998 Ida. PUC LEXIS 178	Allowed PAA in rate base
IL	2004 Ill. PUC LEXIS 382	Allowed accumulated amortization of PAA in rate base
IL	2004 Ill. PUC LEXIS 615	Approved removal of PAA from rate base
IL	2003 Ill. PUC LEXIS 230	Amortized PAA
IL	2001 Ill. PUC LEXIS 693; 210 P.U.R.4th 259	Did not allow recovery of PAA
IL	1998 Ill. PUC LEXIS 697	Amortized anticipated acquisition adjustment over five-year period by a credit to Account 426, Amortization of Utility Plan Acquisition Adjustments and a debit to Account 115, Accumulated Amortization of Utility Plan Acquisition Adjustments
IN	2001 Ind. PUC LEXIS 695	Allowed PAA to be included in rate base but disallowed amortization
KY	2005 Ky. PUC LEXIS 192	Did not allow PAA to be included in rate base
KY	2004 Ky. PUC LEXIS 855; 237 P.U.R.4th 304	Amortized PAA
KY	2000 Ky. PUC LEXIS 1405 Amended Order: 2001 Ky. PUC LEXIS 800	Did not allow PAA to be included in rate base Reversed decision: Amortized PAA; unamortized balance included in rate base
LA	1999 La. PUC LEXIS 117	PAA not included in rate base
NJ	2004 N.J. PUC LEXIS 19	Amortized PAA
NC	2005 N.C. PUC LEXIS 501	Allowed PAA in rate base
NC	2000 N.C. PUC LEXIS 11	PAA included in rate base; amortization allowed
SC	2005 S.C. PUC LEXIS 133	Positive and negative PAA included in rate base and in amortization of expense
SC	2004 S.C. PUC LEXIS 151; 233 P.U.R.4th 482	PAA disallowed because no demonstrated benefit to customers
SC	Docket No. 2000-207-W/S Order No. 2001-887	Positive and negative PAA included in rate base and in amortization of expense
VA	1999 Va. PUC LEXIS 246	Amortized PAA; unamortized portion included in rate base

State	Case	PAA Treatment
VA	1998 Va. PUC LEXIS 234	Amortized PAA
WA	1999 Wash. UTC LEXIS 530	Amortized PAA; unamortized balance included in rate base
WV	2004 W. Va. PUC LEXIS 6; 231 P.U.R.4th 423	Reduced rate base for negative acquisition adjustment
WI	2005 Wisc. PUC LEXIS 327	Allowed PAA in rate base
WI	2003 Wisc. PUC LEXIS 241	Allowed PAA in rate base
WI	2001 Wisc. PUC LEXIS 22	Allowed PAA in rate base

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2006-97-WS

RECEIVED

JUL 26 2006

PSC SC
MAIL / DMS

IN RE:

Application of Tega Cay Water
Service, Inc. for adjustment of
rates and charges and modifications to
certain terms and conditions for the
provision of water and sewer service.

REBUTTAL TESTIMONY
OF
B.R. SKELTON, Ph.D.

**Q. ARE YOU THE SAME DOCTOR B.R. SKELTON THAT HAS PREFILED
DIRECT TESTIMONY IN THIS CASE?**

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

**A. The purpose of my rebuttal testimony is to express my opinion on the Return on
Equity range proposed by ORS in this matter through the testimony of Dr. Randy
Woolridge.**

**Q. IN YOUR OPINION, IS THE RANGE OF RETURNS RECOMMENDED BY DR.
WOOLRIDGE SUFFICIENT TO MAINTAIN TCWS'S FINANCIAL
VIABILITY?**

**A. No, it is not. Dr. Woolridge recommends a return on common equity ("ROE")
range of 9.00-9.40% and an overall return on rate base within the range of 7.48-7.64%.**

1 Such a return would weaken TCWS's financial position considerably as is demonstrated
2 by the operating margin which results from such an unreasonably low return.
3 Additionally, this return is insufficient in comparison to the ROE recently stipulated to by
4 the North Carolina Public Staff for an affiliated company of TCWS. Finally, application
5 of this range of ROE's to TCWS would be particularly inappropriate and unreasonable
6 given the proposal by ORS that a portion of the company's actual investment not be
7 allowed.

8
9 **Q. WHY IS A COMPARISON OF TCWS'S CURRENT RATE CASE WITH ITS 1996**
10 **RATE CASE APPROPRIATE?**

11 **A.** It is my understanding that when a utility files an application for a rate case in
12 South Carolina, among the factors the Commission should consider is the comparison of
13 the utility's previous rate case filing. In 1996, the South Carolina Supreme Court issued
14 its opinion in Heater of Seabrook, Inc. v Public Service Commission, 324 S.C. 56, 478
15 S.E. 2d 826 (1996). The Court stated there that "[i]n determining whether Heater's
16 expenses had increased enough to justify a rate increase, [the] Commission should have
17 compared the current test year, including any known and measurable changes after the
18 test year, with [the] test year from the prior case." I believe a comparison of previously
19 authorized and currently proposed returns on investment is also appropriate.

20
21 **Q. WHY WOULD THE COMPARISON OF TCWS'S CURRENT TEST YEAR**
22 **WITH THE TEST YEAR FROM ITS PRIOR CASE BE RELEVANT IN THIS**
23 **SITUATION?**

1 **A.** I have reviewed TCWS's filing from the last rate case as well as the relevant
2 orders. Based upon TCWS's 1995 test year, the Commission authorized an operating
3 margin of 12.72% in its Order No. 1999-191. Based upon ORS's recommended range of
4 return on common equity in this matter, the resulting operating margin is 6.84% to 7.11%
5 – almost one half of the operating margin previously authorized. Recommending such a
6 reduction in the company's financial health should give the Commission pause.

7
8 **Q. WHY IS THAT?**

9 **A.** If the Commission should adopt the ROE recommended by ORS, it would be
10 sending a message that the Company should be earning less of a return on equity now
11 than what it was allowed to earn seven years ago. Even relatively unsophisticated
12 investors should be aware that the cost of doing business generally has only increased in
13 the last seven years. Furthermore, the Commission should be able to take notice, and the
14 Company's financial information shows, that the cost of providing water and sewer
15 service has only increased since 1999.

16
17 **Q. YOU MENTIONED A RECENT STIPULATION WITH AN AFFILIATE OF**
18 **TCWS; COULD YOU ELABORATE ON THIS?**

19 **A.** I have reviewed the application of Transylvania Utilities, Inc. ("TUI") filed with
20 the North Carolina Utilities Commission ("NCUC") in Docket No. W-1012 Sub 7 for an
21 increase in its rates, a copy of which I attach as BRS Rebuttal Exhibit 1. TUI is similarly
22 situated to TCWS in that it is a smaller utility providing water and wastewater services.
23 On June 28, 2006, TUI filed with the NCUC a stipulation with the North Carolina Public

1 Staff whereby that agency agreed to a 10.7% ROE and an overall Return on Rate Base of
2 8.19% for TUI. This recent acknowledgment of a fair and reasonable return for an
3 affiliated company similarly situated to TCWS is, in my view, further evidence that
4 ORS's proposed return in this case is insufficient.

5
6 **Q. YOU MENTIONED THAT ORS PROPOSED TO DISALLOW A PORTION OF**
7 **TCWS'S INVESTMENT; WOULD YOU PLEASE EXPLAIN THIS**
8 **STATEMENT?**

9 **A.** Yes. It is my understanding that ORS proposes to exclude from the Company's
10 plant upon which a return should be allowed the plant acquisition adjustment which
11 represents the amount of investment made by the company to acquire its systems over
12 and above its book value at the time of acquisition. I start with the basic premise that
13 utilities should be allowed to earn a fair and reasonable return on their investments in
14 South Carolina. When given effect, this premise then encourages development of our
15 utility infrastructure, enhances and increases real estate development, improves our
16 economy, promotes compliance with regulatory requirements, and improves our state's
17 environmental health. Disallowing a return on these types of plant investments
18 ultimately injures the company and the citizens of South Carolina. Companies will
19 become disinclined to invest capital if they are not able to recover those expenses. This
20 will ultimately discourage the installation of and investment into adequate and proper
21 facilities and will impair the water and wastewater utility infrastructure in this state.

1 **Q. AND HOW DOES THE DISALLOWANCE OF A RETURN ON THIS**
2 **INVESTMENT BEAR UPON A FAIR RETURN ANALYSIS?**

3 **A.** If the Company is not allowed to recover its actual and identifiable investment
4 which includes the PAA, usage of the return on rate base methodology becomes
5 questionable. Return on rate base methodology is designed to allow a company to
6 recover a reasonable return on its investments. If the PAA is not allowed, then the
7 adopted ROE and return on rate base will overstate the company's actual return. This is
8 demonstrated by the operating margin in the range of 6.84% - 7.11% that I have
9 previously identified.

10

11 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

12 **A.** Yes, it does.

OFFICIAL COPY



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

June 27, 2006

FILED

JUN 24 2006

Clerk's Office
N.C. Utilities Commission

Ms. Renne C. Vance, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4325

Re: Docket No. W-1012, Sub 7
Transylvania Utilities, Inc.

Dear Ms. Vance:

Enclosed for filing in the above-referenced docket are twelve (12) copies of a Stipulation of Transylvania Utilities, Inc., and the Public Staff. Transylvania Utilities, Inc., has reviewed the document and is in agreement with its provisions.

Sincerely,

A handwritten signature in cursive script, appearing to read "Gina C. Holt".

Gina C. Holt
Staff Attorney

GCH/bll

Enclosure

(24)
p.s.
Dennis
Lester
William
Hansen
Bryson
Holt

Executive Director
733-2435

Communications
733-2810

Economic Research
733-2902

Legal
733-6110

Transportation
733-7766

Accounting
733-4279

Consumer Services
733-9277

Electric
733-2267

Natural Gas
733-4326

Water
733-5610

**OFFICIAL COPY
FILED**

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. W-1012, SUB 7

JUN 18 2006
Clerk's Office
N.C. Utilities Commission

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of)	STIPULATION OF
Application by Transylvania Utilities, Inc., 5701)	TRANSYLVANIA
Westpark Drive, Suite 101, Charlotte, North)	UTILITIES, INC. AND
Carolina 28210, for Authority to Increase Rates for)	THE PUBLIC STAFF
Water and Sewer Utility Service in Connestee Falls)	

Transylvania Utilities, Inc. ("TUI") and the Public Staff - North Carolina Utilities Commission (the "Public Staff"), (jointly the "Parties") submit the following stipulation for the Commission's consideration in the above-captioned docket. The Parties agree that:

1. On February 8, 2006, TUI filed an application for a general increase in its water and sewer rates for its service area in the Connestee Falls Subdivision, Transylvania County, North Carolina.
2. On March 7, 2006, the Commission declared the above-captioned proceeding to be a general rate case pursuant to N.C. Gen. Stat. § 62-137 and suspended the proposed rates, scheduled hearing and required public notice.
3. On April 13, 2006, the Commission issued an order limiting the hearing scheduled for June 27, 2006, to testimony of customer witnesses and scheduling an evidentiary hearing for June 29th, and requiring customer notice.
4. By order dated May 24, 2006, the Commission changed the location of the customer hearing from the Transylvania County Courthouse to the Connestee Falls Clubhouse.
5. The test year for purposes of establishing rates in this docket is the 12-month period ended June 30, 2005, updated through December 31, 2005.
6. TUI requested an increase in its water and sewer rates that would produce the following additional revenues:

Water:	\$375,769
Sewer:	\$293,749

7. TUI's original cost rate base at December 31, 2005 is:

Water:	\$1,913,503
Sewer:	\$ 753,107

8. TUI had water plant in service of \$2,800,232 and sewer plant in service of \$1,345,379 at the end of the test year, including pro forma adjustments.
9. It is reasonable to allocate the amount of \$18,133, which was the cost of pumps, motors, and plumbing from abandoned wells on TUI's system, among all of Utilities, Inc's., North Carolina systems, such that 4% of this amount is allocated to TUI.
10. The accumulated depreciation at the end of the test year, including pro forma adjustments, was \$427,476 for water operations and \$393,947 for sewer operations.
11. The contributions in aid of construction at the end of the test year was \$389,171 for water operations and \$266,229 for sewer operations, reduced by accumulated amortization of \$78,281 for water operations and \$58,674 for sewer operations.
12. The costs which TUI incurred for clearing water and sewer easements and right-of-ways will be amortized over 10 years.
13. The costs which TUI incurred for an inflow and infiltration study on the wastewater system will be amortized over five years.
14. TUI is entitled to total rate case costs of \$96,541, consisting of \$81,731 of current rate case costs and \$14,810 of unamortized costs from the prior rate case. These costs should be amortized over three years, thereby resulting in an annual rate case expense of \$32,180.
15. It is reasonable and appropriate to calculate regulatory fees using the statutory rate of 0.12%.
16. It is reasonable and appropriate to calculate gross receipts tax based on the levels of revenues and the statutory rates of 4% for water operations and 6% for sewer operations.
17. It is reasonable and appropriate to calculate the state and federal income taxes based on the corporate rates of 6.9% for state income tax and 34% for federal income tax. The domestic production facilities deduction has been included in the calculation of federal income taxes.

18. TUI's total operating revenue deductions under present rates are:

Water:	\$386,462
Sewer:	\$294,937

19. TUI's total operating revenue deductions under the agreed-upon rates are:

Water:	\$437,877
Sewer:	\$324,031

20. TUI's present rates produce the following operating revenues:

Water:	\$467,174
Sewer:	\$253,563

21. On June 7, 2006, the Parties entered into a Partial Settlement Agreement establishing the rate of return components to be used in the above-captioned docket. The agreed upon overall rate of return on rate base was established at 8.19%.

22. The Parties agree that TUI is entitled to charges that will produce the following revenues:

Water:	\$594,528
Sewer:	\$385,685

23. Accordingly, the Parties agree that TUI is entitled to have the following rates established as shown in Appendix A:

Water:

Metered rate, zero usage

5/8" x 3/4"	\$ 21.95
1" meter	\$ 54.88
2" meter	\$175.60
Usage Rate/1000 gallons	\$ 5.33

Sewer:

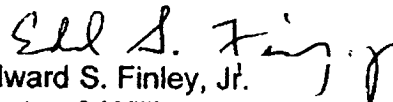
Flat rate	\$ 33.00
Metered rate, zero usage	
5/8" x 3/4"	\$ 19.66
1" meter	\$ 49.15
2" meter	\$157.28

Usage Rate/1000 gallons	\$ 4.93
-------------------------	---------

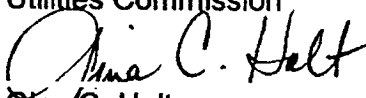
24. TUI is not seeking fee increases in reconnection charges, new customer charges, meter installation fee, meter testing fee, tampering fee, return check charge or premise visit fee.
25. TUI agrees to make journal entries on its books and records to correct the amounts for plant in service, contributions in aid of construction, accumulated depreciation, accumulated amortization, and acquisition adjustment pursuant to the Commission's order in Docket No. W-1012, Sub 5. TUI agrees to, within 60 days of the effective date of the order issued in this case, provide the journal entries to the Public Staff for review before they are recorded on TUI's books. TUI also agrees to file the final journal entries with the Commission within 120 days of the effective date of the order issued in this case.
26. TUI agrees to revise its calculation of customer equivalents to include only actual customers in the calculation. TUI agrees to file a new customer equivalent report within three months of the effective date of the order issued in this case.
27. The Stipulating Parties agree that all prefiled testimony and exhibits may be introduced into evidence without objection, and the parties hereto waive their right to cross-examine all witnesses with respect to all such prefiled testimony and exhibits.
28. The Parties agree that any Recommended Order approving rates and charges agreed to in this stipulation may become the Final Order of the Commission upon issuance and waive the right to file exceptions to the Recommended Order.
29. The Parties agree to waive appeal of a Final Order of the Commission incorporating the matters stipulated to herein.
30. The Parties acknowledge that this Stipulation resulted from extensive negotiations and compromise. Thus, the agreements reached do not necessarily reflect the respective Parties' beliefs as to the proper treatment or level of the matters cited. Except as needed to carry out the terms of the Commission's Order, which is based on this Stipulation, the Parties have agreed that none of the positions, treatments, figures or other matters reflected in this Stipulation shall have any precedential value, nor shall they otherwise be used in any subsequent proceedings before this Commission or any other regulatory body as proof of the matter in issue.

The foregoing is agreed and stipulated to this the 28th day of June, 2006.

Transylvania Utility Services, Inc.

By: 
Edward S. Finley, Jr.
Hunton & Williams LLP
One Hannover Square
Suite 1400
421 Fayetteville St. Mall
Raleigh, NC 27601

Public Staff - North Carolina
Utilities Commission

By: 
Gina C. Holt
Staff Attorney

SCHEDULE OF RATES
for

TRANSYLVANIA UTILITIES, INC.
for providing water and sewer utility service in

CONNESTEE FALLS SUBDIVISION
Transylvania County, North Carolina

Monthly Metered Water Rates:

Base Charge, zero usage (based on meter size)

5/8 x 3/4" meter (typical residential service)	\$ 21.95
1" meter	\$ 54.88
2" meter	\$175.60

Usage Charge, per 1,000 gallons	\$ 5.33
---------------------------------	---------

MONTHLY SEWER RATES:

<u>Flat Rate:</u> (Sewer only customers)	\$ 33.00
--	----------

Metered: (Based on water used)

Base Charge, zero usage (based on meter size)

5/8 x 3/4" meter	\$ 19.66
1" meter	\$ 49.15
2" meter	\$157.28

Usage Charge, per 1,000 gallons	\$ 4.93
---------------------------------	---------

MONTHLY AVAILABILITY RATES:

Water	\$ 5.00
Sewer	\$ 5.00

CONNECTION CHARGES:

Water	\$600 per tap
Sewer	\$400 per tap

RECONNECTION CHARGES:

Water Service -

If water service disconnected by utility for good cause: \$ 27.00
If water service disconnected by utility at customer's request: *\$ 27.00

- * Customers who ask to be reconnected within nine months of disconnection will be charged the base charge for each month they were disconnected.

Sewer Service;

If sewer service disconnected by utility for good cause: Actual Cost
If sewer service disconnected by utility at customer's request:** Actual Cost

- ** The sewer disconnection charge will be waived if the sewer customer is also a water customer. Customers who ask to be reconnected within nine months of disconnection will be charged the base facility charge for the service period they were disconnected. In situations where sewer service is disconnected for sewer only customers the actual cost will be charged. The utility will itemize the estimated cost of disconnecting and reconnecting service and will furnish this exhibit to customers with cut-off notice.

NEW CUSTOMER CHARGE:

Water - \$27.00
Sewer - \$27.00 ***

- *** This charge will be waived if sewer customer is also water customer.

METER TESTING FEE: \$20.00 ****

- **** If a customer requests a test of a water meter more frequently than once in a 24-month period, this Company will collect a \$20.00 service charge to defray the cost of the test. If the meter is found to register in excess of the prescribed accuracy limits, the meter test charge will be waived. If the meter is found to register accurately or within such prescribed limits, the charge shall be retained by the Company. Regardless of the test results, customers may request a meter test once in a 24-month period without charge.

BILLS DUE: On billing date.

BILLS PAST DUE: 15 days after billing date.

BILLS FREQUENCY:

Water and Sewer Rates -
Availability Rates -

Shall be monthly for service in arrears
Shall be quarterly in advance

CHARGE FOR RETURNED CHECK: \$12.00

FINANCE CHARGE FOR LATE PAYMENT: 1% per month will be applied to the
unpaid balance of all bills past due 25 days after billing date.

Issued in Accordance with Authority Granted by the North Carolina Utilities Commission
in Docket No. W-1012, Sub 7, on this the ____ day of _____, 2006.

INDEX TO STIPULATION EXHIBIT I

<u>LINE NO.</u>	<u>TITLE</u>	<u>SCHEDULE NO.</u>
1.	RETURN ON ORIGINAL COST RATE BASE - WATER OPERATIONS	1(a)
2.	RETURN ON ORIGINAL COST RATE BASE - SEWER OPERATIONS	1(b)
3.	ORIGINAL COST RATE BASE - WATER AND SEWER COMBINED	2
4.	ORIGINAL COST RATE BASE - WATER OPERATIONS	2(a)
5.	ORIGINAL COST RATE BASE - SEWER OPERATIONS	2(b)
6.	ADJUSTMENT TO PLANT IN SERVICE	2-1
7.	CALCULATION OF PLANT IN SERVICE, ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE	2-2
8.	CALCULATION OF ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE ON ASSETS ACQUIRED IN TRANSFER	2-2(a)
9.	CALCULATION OF ACCUMULATED DEPRECIATION AND DEPRECIATION EXPENSE FOR ADDITIONS SINCE ACQUISITION	2-2(b)
10.	CALCULATION OF CONTRIBUTIONS IN AID OF CONSTRUCTION, ACCUMULATED AMORTIZATION AND AMORTIZATION EXPENSE	2-3
11.	NET OPERATING INCOME FOR A RETURN - WATER AND SEWER COMBINED	3
12.	NET OPERATING INCOME FOR A RETURN - WATER OPERATIONS	3(a)
13.	NET OPERATING INCOME FOR A RETURN - SEWER OPERATIONS	3(b)

TRANSYLVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
RETURN ON ORIGINAL COST RATE BASE
For The Test Year Ended December 31, 2005

Stipulation Exhibit I
Schedule 1(a)

Water Operations

Line No.	Item	Capital-ization Ratio (a)	Original Cost Rate Base (b)	Embedded Cost (c)	Overall Cost Rate (d)	Net Operating Income (e)
	<u>Present rates:</u>					
1.	Debt	58.45%	\$1,118,443 [2]	6.40% [1]	3.74%	\$71,580 [8]
2.	Equity	41.55%	795,060 [2]	1.15% [6]	0.48%	9,132 [9]
3.	Total	100.00%	\$1,913,503 [3]		4.22%	\$80,712 [10]
	<u>Company proposed rates:</u>					
4.	Debt	58.45%	\$1,118,443 [4]	6.40% [1]	3.74%	\$71,580 [8]
5.	Equity	41.55%	795,060 [4]	29.33% [6]	12.19%	233,196 [11]
6.	Total	100.00%	\$1,913,503 [3]		15.93%	\$304,776 [12]
	<u>Stipulated:</u>					
7.	Debt	58.45%	\$1,118,443 [5]	6.40% [1]	3.74%	\$71,580 [8]
8.	Equity	41.55%	795,060 [5]	10.70% [1]	4.45%	85,071 [8]
9.	Total	100.00%	\$1,913,503 [3]		8.19%	\$156,651

- [1] Based on stipulation between Public Staff and Company.
[2] Column (a) x Line 3, Column (b).
[3] Stipulation Exhibit I, Schedule 2(a), Line 10, Column (c).
[4] Column (a) x Line 6, Column (b).
[5] Column (a) x Line 9, Column (b).
[6] Column (e) divided by Column (b).

- [7] Column (a) x Column (c).
[8] Column (b) x Column (c).
[9] Line 3 - Line 1, Column (e).
[10] Stipulation Exhibit I, Schedule 3(a), Line 40, Column (c).
[11] Line 6 - Line 4, Column (e).
[12] Stipulation Exhibit I, Schedule 3(a), Line 40, Column (e).

TRANSYLVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
RETURN ON ORIGINAL COST RATE BASE
For The Test Year Ended December 31, 2005

Stipulation Exhibit I
Schedule 1(b)

Sewer Operations

Line No.	Item	Capital-ization Ratio [1] (a)	Original Cost Rate Base [2] (b)	Embedded Cost [3] (c)	Overall Cost Rate [7] (d)	Net Operating Income [8] (e)
<u>Present rates:</u>						
1.	Debt	58.45%	\$440,191 [2]	6.40% [1]	3.74%	\$28,172 [8]
2.	Equity	41.55%	312,916 [2]	-22.23% [6]	-9.24%	(69,546) [9]
3.	Total	100.00%	\$753,107 [3]		-5.50%	(\$41,374) [10]
<u>Company proposed rates:</u>						
4.	Debt	58.45%	\$440,191 [4]	6.40% [1]	3.74%	\$28,172 [8]
5.	Equity	41.55%	312,916 [4]	40.50% [6]	16.83%	126,717 [11]
6.	Total	100.00%	\$753,107 [3]		20.57%	\$154,889 [12]
<u>Stipulated:</u>						
7.	Debt	58.45%	\$440,191 [5]	6.40% [1]	3.74%	\$28,172 [8]
8.	Equity	41.55%	312,916 [5]	10.70% [1]	4.45%	33,482 [8]
9.	Total	100.00%	\$753,107 [3]		8.19%	\$61,654

- [1] Based on stipulation between Public Staff and Company.
[2] Column (a) x Line 3, Column (b).
[3] Stipulation Exhibit I, Schedule 2(b), Line 10, Column (c).
[4] Column (a) x Line 6, Column (b).
[5] Column (a) x Line 9, Column (b).
[6] Column (e) divided by Column (b).

- [7] Column (a) x Column (c).
[8] Column (b) x Column (c).
[9] Line 3 - Line 1, Column (e).
[10] Stipulation Exhibit I, Schedule 3(b), Line 40, Column (c).
[11] Line 6 - Line 4, Column (e).
[12] Stipulation Exhibit I, Schedule 3(b), Line 40, Column (e).

TRANSYLVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
ORIGINAL COST RATE BASE
For The Test Year Ended December 31, 2005

Stipulation Exhibit I
Schedule 2

Water and Sewer Combined

Line No.	<u>Item</u>	Per Application [1] (a)	Public Staff Adjustments [1] (b)	After Public Staff Adjustments [1] (c)
1.	Plant in service	\$4,459,980	(\$314,369)	\$4,145,611
2.	Accumulated depreciation	(686,359)	(135,064)	(821,423)
3.	Cash working capital	74,213	(7,790)	66,423
4.	Average tax accruals	0	(9,653)	(9,653)
5.	Contributions in aid of construction, net	(494,034)	(24,411)	(518,445)
6.	WSC rate base	17,472	(5,044)	12,428
7.	CWS regional offices	20,696	(150)	20,546
8.	Deferred charges - rate base	0	137,320	137,320
9.	Accumulated deferred income taxes	<u>(257,843)</u>	<u>(108,354)</u>	<u>(366,197)</u>
10.	Original cost rate base	<u>\$3,134,125</u>	<u>(\$467,515)</u>	<u>\$2,666,610</u>

[1] Stipulation Exhibit I, Schedule 2(a) plus Schedule 2(b).

TRANSYLVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
ORIGINAL COST RATE BASE
For The Test Year Ended December 31, 2005

Stipulation Exhibit I
Schedule 2(a)

Water Operations

Line No.	<u>Item</u>	<u>Per Application (a)</u>	<u>Public Staff Adjustments [1] (b)</u>	<u>After Public Staff Adjustments (c)</u>
1.	Plant in service	\$2,973,903	(\$173,671)	\$2,800,232 [2]
2.	Accumulated depreciation	(359,645)	(67,831)	(427,476) [3]
3.	Cash working capital	41,397	(5,361)	36,036 [4]
4.	Average tax accruals	0	(5,572)	(5,572) [5]
5.	Contributions in aid of construction, net	(295,026)	(15,864)	(310,890) [6]
6.	WSC rate base	10,693	(3,062)	7,631 [7]
7.	CWS regional offices	12,666	(51)	12,615 [7]
8.	Deferred charges - rate base	0	48,293	48,293 [7]
9.	Accumulated deferred income taxes	<u>(159,420)</u>	<u>(87,946)</u>	<u>(247,366) [7]</u>
10.	Original cost rate base	<u><u>\$2,224,568</u></u>	<u><u>(\$311,065)</u></u>	<u><u>\$1,913,503</u></u>

- [1] Column (c) - Column (a).
- [2] Stipulation Exhibit I, Schedule 2-1, Line 8, Column (a).
- [3] Stipulation Exhibit I, Schedule 2-2, Line 10, Column (a).
- [4] One-eighth of O&M expenses.
- [5] One-sixth of gross receipts tax and payroll taxes, plus one-half of property taxes.
- [6] Stipulation Exhibit I, Schedule 2-3, Line 15, Column (a).
- [7] Agreed to by the parties.

TRANSYLVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
ORIGINAL COST RATE BASE
For The Test Year Ended December 31, 2005

Stipulation Exhibit I
Schedule 2(b)

Sewer Operations

Line No.	<u>Item</u>	Per Application (a)	Public Staff Adjustments [1] (b)	After Public Staff Adjustments (c)
1.	Plant in service	\$1,486,077	(\$140,698)	\$1,345,379 [2]
2.	Accumulated depreciation	(326,714)	(67,233)	(393,947) [3]
3.	Cash working capital	32,816	(2,429)	30,387 [4]
4.	Average tax accruals	0	(4,081)	(4,081) [5]
5.	Contributions in aid of construction, net	(199,008)	(8,547)	(207,555) [6]
6.	WSC rate base	6,779	(1,982)	4,797 [7]
7.	CWS regional offices	8,030	(99)	7,931 [7]
8.	Deferred charges - rate base	0	89,027	89,027 [7]
9.	Accumulated deferred income taxes	<u>(98,423)</u>	<u>(20,408)</u>	<u>(118,831) [7]</u>
10.	Original cost rate base	<u><u>\$909,557</u></u>	<u><u>(\$156,450)</u></u>	<u><u>\$753,107</u></u>

- [1] Column (c) - Column (a).
- [2] Stipulation Exhibit I, Schedule 2-1, Line 8, Column (b).
- [3] Stipulation Exhibit I, Schedule 2-2, Line 10, Column (b).
- [4] One-eighth of O&M expenses.
- [5] One-sixth of gross receipts tax and payroll taxes, plus one-half of property taxes.
- [6] Stipulation Exhibit I, Schedule 2-3, Line 15, Column (b).
- [7] Agreed to by the parties.

TRANSYLVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
ADJUSTMENT TO PLANT IN SERVICE
For The Test Year Ended December 31, 2005

Stipulation Exhibit I
Schedule 2-1

Line No.	<u>Item</u>	<u>Water</u> (a)	<u>Sewer</u> (b)	<u>Total</u> (c) [5]
1.	Amount per Company application	\$2,973,903 [1]	\$1,486,077 [1]	\$4,459,980
	Public Staff adjustments:			
2.	Difference in Sub 5 stipulation	(51,638) [2]	5,545 [2]	(46,093)
3.	Remove proforma estimates from application	(527,780) [1]	(319,856) [1]	(847,636)
4.	Include 6 months 6/30-12/31/2005	246,827 [3]	50,439 [3]	297,266
5.	Remove salvaged abandoned well items	(17,408) [4]	0	(17,408)
6.	Include 2006 projects completed net of retirements	210,511 [4]	88,986 [4]	299,497
7.	Adjust allocation of common plant	<u>(34,183) [4]</u>	<u>34,188 [4]</u>	<u>5</u>
8.	Plant in service per Public Staff	<u>\$2,800,232</u>	<u>\$1,345,379</u>	<u>\$4,145,611</u>

- [1] Per Company application.
[2] Per Stipulation in Docket No. W-1012, Sub 5.
[3] Per Company records.
[4] Agreed to by the parties.
[5] Column (a) plus Column (b).

TRANSYLVANIA UTILITIES, INC.

Docket No. W-1012, Sub 7

Stipulation Exhibit I

Schedule 2-2

**CALCULATION OF PLANT IN SERVICE, ACCUMULATED
DEPRECIATION AND DEPRECIATION EXPENSE**

For The Test Year Ended December 31, 2005

Line No.	Item	Water (a)	Sewer (b)	Common (c)	Total (d)	[11]
Plant in service						
1.	Plant acquired	\$368,529 [1]	\$638,454 [5]	\$47,218 [8]	\$1,054,201	
2.	Additions as of 12/31/03	1,406,993 [2]	346,045 [6]	189,609 [9]	1,942,647	
3.	Additions since 12/31/03	848,424 [3]	250,056 [7]	50,283 [10]	1,148,763	
4.	Allocation of common plant	176,286 [4]	110,824 [4]	(287,110) [4]	0	
5.	Total plant in service	<u>\$2,800,232</u>	<u>\$1,345,379</u>		<u>\$4,145,611</u>	
Accumulated depreciation						
6.	Plant acquired	259,183 [1]	466,074 [5]	43,369 [8]	768,626	
7.	Additions as of 12/31/03	153,008 [2]	58,536 [6]	171,454 [9]	382,998	
8.	Additions since 12/31/03	(108,257) [3]	(208,329) [7]	(13,615) [10]	(330,201)	
9.	Allocation of common plant	123,542 [4]	77,666 [4]	(201,208) [4]	0	
10.	Total accumulated depreciation	<u>\$427,476</u>	<u>\$393,947</u>		<u>\$821,423</u>	
Depreciation expense						
11.	Plant acquired	8,202 [1]	15,797 [5]	0 [8]	23,999	
12.	Additions as of 12/31/03	28,894 [2]	6,519 [6]	8,907 [9]	44,320	
13.	Additions since 12/31/03	21,161 [3]	5,244 [7]	8,223 [10]	34,628	
14.	Allocation of common plant	10,518 [4]	6,612 [4]	(17,130) [4]	0	
15.	WSC and CWS office depreciation expense	2,177 [12]	1,369 [12]		3,546	
16.	Total depreciation expense	<u>\$70,952</u>	<u>\$35,541</u>		<u>\$106,493</u>	

[1] Stipulation Exhibit I, Schedule 2-2(a), Line 6.

[2] Stipulation Exhibit I, Schedule 2-2(b), Line 79.

[3] Stipulation Exhibit I, Schedule 2-2(b), Line 188.

[4] Common plant in Column (c) allocated 61.4% to water and 38.6% to sewer based on customer ratio.

[5] Stipulation Exhibit I, Schedule 2-2(a), Line 10.

[6] Stipulation Exhibit I, Schedule 2-2(b), Line 134.

[7] Stipulation Exhibit I, Schedule 2-2(b), Line 213.

[8] Stipulation Exhibit I, Schedule 2-2(a), Line 13.

[9] Stipulation Exhibit I, Schedule 2-2(b), Line 154.

[10] Stipulation Exhibit I, Schedule 2-2(b), Line 223.

[11] Sum of Columns (a) through (c).

[12] Per Company books and records.

TRANSYLVANIA UTILITIES, INC.

Docket No. W-1012, Sub 7

Stipulation Exhibit I
Schedule 2-2(a)

**CALCULATION OF ACCUMULATED DEPRECIATION AND
DEPRECIATION EXPENSE ON ASSETS ACQUIRED IN TRANSFER**

For The Test Year Ended December 31, 2005

Line No.	Item	Year Placed in Service [1] (a)	Cost [1] (b)	Acc. Depr. at 12/31/93 [1] (c)	Useful Life [1] (d)	Annual Depreciation [2] (e)	Accumulated Depreciation [3] (f)
<u>Water operations</u>							
1.	Water plant	1976	\$218,700	\$98,590	50	\$4,374	\$151,078
2.	Well pumps	1984	6,543	1,191	10	0	6,543
3.	Transmission/distribution mains	1979	36,651	12,862	100	367	17,266
4.	Meters	1989	99,635	41,189	30	3,321	81,041
5.	Service lines	1990	7,000	1,575	50	140	3,255
6.	Total purchased water plant		<u>368,529</u>	<u>155,407</u>		<u>8,202</u>	<u>259,183</u>
<u>Sewer operations</u>							
7.	Sewer plant	1976	611,781	273,084	40	15,295	456,624
8.	Pumps/lift stations	1989	22,007	2,373	50	440	7,653
9.	Service lines	1990	4,666	1,053	75	62	1,797
10.	Total purchased sewer plant		<u>638,454</u>	<u>276,510</u>		<u>15,797</u>	<u>466,074</u>
<u>Common plant</u>							
11.	Fully depreciated plant		43,369	24,472		0	43,369
12.	Land	1979	3,849	na	na	na	na
13.	Total purchased common plant		<u>47,218</u>	<u>24,472</u>		<u>0</u>	<u>43,369</u>
14.	Totals		<u>\$1,054,201</u>	<u>\$456,389</u>		<u>\$23,999</u>	<u>\$768,626</u>

[1] Based on last general rate case, Docket No. W-1012, Sub 5.

[2] Column (b) divided by Column (d), unless fully depreciated.

[3] Column (e) multiplied by 12 years in service from December 31, 1993 to December 31, 2005 plus Column (c), unless fully depreciated.

TRANSYLVANIA UTILITIES, INC.

Docket No. W-1012, Sub 7

**CALCULATION OF ACCUMULATED
DEPRECIATION AND DEPRECIATION EXPENSE
FOR ADDITIONS SINCE ACQUISITION
For The Test Year Ended December 31, 2005**

Stipulation Exhibit 1

Schedule 2-2(b)

Page 1 of 8

Line No.	Item	Plant In Service Per Public Staff (a)	Year Placed In Service [2] (b)	Life [1] (c)	Years in Service [4] (d)	Annual Depreciation [5] (e)	Accumulated Depreciation [6] (f)
<u>Amounts in prior rate case:</u>							
<u>Water operations</u>							
1.	Fully depreciated plant	\$19,972 [1]					\$19,972
2.	Distribution reservoirs & service lines	2,477 [1]	1992	50	13.5	\$50	675
3.	Transmission and distribution mains	410 [1]	1992	100	13.5	4	54
4.	Meters	4,495 [1]	1992	30	13.5	150	2,025
5.	Organizational costs	26,461 [1]	1992	40	13.5	662	8,937
6.	Wells & springs, distrib. reserv., & service lines	10,669 [1]	1993	50	12.5	213	2,663
7.	Water treatment structure & hydrants	662 [1]	1993	40	12.5	17	213
8.	Transmission and distribution mains	19,273 [1]	1993	100	12.5	193	2,413
9.	Wells and springs	5,808 [1]	1994	50	11.5	116	1,334
10.	Structures and improvements	1,942 [1]	1994	50	11.5	39	449
11.	Water treatment equipment	2,236 [1]	1994	40	11.5	56	644
12.	Distribution reservoirs	20,372 [1]	1994	50	11.5	407	4,681
13.	Transmission/distribution mains	9,302 [1]	1994	100	11.5	93	1,070
14.	Service lines	8,454 [1]	1994	50	11.5	169	1,944
15.	Wells and springs	4,851 [1]	1995	50	10.5	97	1,019
16.	Water treatment equipment	1,124 [1]	1995	40	10.5	28	294
17.	Distribution reservoirs	398 [1]	1995	50	10.5	8	84
18.	Transmission/distribution mains	2,794 [1]	1995	100	10.5	28	294
19.	Service lines	3,831 [1]	1995	50	10.5	77	809
20.	Meters	2,733 [1]	1995	30	10.5	91	956
21.	Wells and springs	2,907 [1]	1996	50	9.5	58	551
22.	Electric pump equipment	2,310 [1]	1996	10	9.5	231	2,195
23.	Water treatment equipment	357 [1]	1996	40	9.5	9	86
24.	Transmission/distribution mains	13,245 [1]	1996	100	9.5	132	1,254
25.	Service lines	14,302 [1]	1996	50	9.5	286	2,717
26.	Wells and springs	8,501 [1]	1997	50	8.5	170	1,445
27.	Electric pump equipment	1,660 [1]	1997	10	8.5	166	1,411
28.	Water treatment equipment	326 [1]	1997	40	8.5	8	68
29.	Distribution reservoirs	1,872 [1]	1997	50	8.5	37	315
30.	Transmission/distribution mains	7,590 [1]	1997	100	8.5	76	646

TRANSYLVANIA UTILITIES, INC.

Docket No. W-1012, Sub 7

**CALCULATION OF ACCUMULATED
DEPRECIATION AND DEPRECIATION EXPENSE
FOR ADDITIONS SINCE ACQUISITION
For The Test Year Ended December 31, 2005**

Stipulation Exhibit I

Schedule 2-2(b)

Page 2 of 8

Line No.	Item	Plant In Service Per Public Staff (a)	Year Placed In Service [2] (b)	Life [1] (c)	Years in Service [4] (d)	Annual Depreciation [5] (e)	Accumulated Depreciation [6] (f)
31.	Service lines	6,242 [1]	1997	50	8.5	125	1,063
32.	Meters	7,567 [1]	1997	30	8.5	252	2,142
33.	Structures and improvements	2,981 [1]	1998	50	7.5	60	450
34.	Wells and springs	11,314 [1]	1998	50	7.5	226	1,695
35.	Electric pump equipment	4,190 [1]	1998	30	7.5	140	1,050
36.	Water treatment equipment	4,802 [1]	1998	40	7.5	120	900
37.	Distribution reservoirs	722 [1]	1998	50	7.5	14	105
38.	Transmission/distribution mains	18,463 [1]	1998	100	7.5	185	1,388
39.	Service lines	15,797 [1]	1998	50	7.5	316	2,370
40.	Structures and improvements	12,260 [1]	1999	50	6.5	245	1,593
41.	Wells and springs	28,346 [1]	1999	50	6.5	567	3,686
42.	Electric pump equipment	975 [1]	1999	10	6.5	98	637
43.	Water treatment equipment	143 [1]	1999	40	6.5	4	26
44.	Distribution reservoirs	611 [1]	1999	50	6.5	12	78
45.	Transmission/distribution mains	18,327 [1]	1999	100	6.5	183	1,190
46.	Service lines	15,065 [1]	1999	50	6.5	301	1,957
47.	Meters	5,655 [1]	1999	30	6.5	189	1,229
48.	Structures and improvements	870 [1]	2000	50	5.5	17	94
49.	Wells and springs	54,227 [1]	2000	50	5.5	1,085	5,968
50.	Electric pump equipment	682 [1]	2000	10	5.5	68	374
51.	Water treatment equipment	215 [1]	2000	40	5.5	5	28
52.	Transmission/distribution mains	7,158 [1]	2000	100	5.5	72	396
53.	Service lines	16,472 [1]	2000	50	5.5	329	1,810
54.	Meters	383 [1]	2000	30	5.5	13	72
55.	Structures and improvements	661 [1]	2001	50	4.5	13	59
56.	Wells and springs	192,693 [1]	2001	50	4.5	3,854	17,343
57.	Water treatment equipment	217 [1]	2001	40	4.5	5	23
58.	Distribution reservoirs	737 [1]	2001	50	4.5	15	68
59.	Transmission/distribution mains	12,583 [1]	2001	100	4.5	126	567
60.	Service lines	20,050 [1]	2001	50	4.5	401	1,805
61.	Meters	2,378 [1]	2001	30	4.5	79	356
62.	Electric pump equipment	34 [1]	2001	10	4.5	3	14
63.	Structures and improvements	2,186 [1]	2002	50	3.5	44	154

TRANSYLVANIA UTILITIES, INC.

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**CALCULATION OF ACCUMULATED
DEPRECIATION AND DEPRECIATION EXPENSE
FOR ADDITIONS SINCE ACQUISITION
For The Test Year Ended December 31, 2005**

Stipulation Exhibit I

Schedule 2-2(b)

Page 3 of 8

Line No.	Item	Plant In Service Per Public Staff (a)	Year Placed In Service [2] (b)	Life [1] (c)	Years in Service [4] (d)	Annual Depreciation [5] (e)	Accumulated Depreciation [6] (f)
64.	Wells and springs	20,822 [1]	2002	50	3.5	416	1,456
65.	Electric pump equipment	970 [1]	2002	30	3.5	32	112
66.	Water treatment equipment	868 [1]	2002	40	3.5	22	77
67.	Transmission/distribution mains	9,765 [1]	2002	100	3.5	98	343
68.	Service lines	16,081 [1]	2002	50	3.5	322	1,127
69.	Meters	1,970 [1]	2002	30	3.5	66	231
70.	Structures and improvements	34,303 [1]	2003	50	2.5	686	1,715
71.	Wells and springs	574,482 [1]	2003	50	2.5	11,490	28,725
72.	Electric pump equipment	16,756 [1]	2003	10	2.5	1,676	4,190
73.	Water treatment equipment	1,150 [1]	2003	40	2.5	29	73
74.	Transmission/distribution mains	16,185 [1]	2003	100	2.5	162	405
75.	Service lines	37,253 [1]	2003	50	2.5	745	1,863
76.	Meters	7,670 [1]	2003	30	2.5	256	640
77.	Distribution reservoirs	470 [1]	2003	50	2.5	9	23
78.	Organizational cost - Qualla Village	1,908 [1]	2003	40	2.5	48	120
79.	Total prior water plant	1,406,993				28,894	153,008
<u>Sewer operations</u>							
80.	Sewage treatment plant	1,922 [1]	1992	40	13.5	48	648
81.	Service lines	1,572 [1]	1992	75	13.5	21	284
82.	Lift station	286 [1]	1992	50	13.5	6	81
83.	Organizational costs	17,285 [1]	1992	40	13.5	432	5,832
84.	Sewage treatment plant	15,612 [1]	1993	40	12.5	390	4,875
85.	Service lines	3,606 [1]	1993	75	12.5	48	600
86.	Force or vacuum mains	117 [1]	1993	100	12.5	1	13
87.	Buildings & structures	144 [1]	1994	50	11.5	3	35
88.	Sewage treatment plant	35,653 [1]	1994	40	11.5	891	10,247
89.	Sewage service lines	6,317 [1]	1994	75	11.5	84	966
90.	Force or vacuum mains	930 [1]	1994	100	11.5	9	104
91.	Sewer mains	4,152 [1]	1994	100	11.5	42	483
92.	Lift stations	49,954 [1]	1994	50	11.5	999	11,489
93.	Sewage treatment plant	4,394 [1]	1995	40	10.5	110	1,155
94.	Sewer service lines	1,772 [1]	1995	75	10.5	24	252

TRANSYLVANIA UTILITIES, INC.

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**CALCULATION OF ACCUMULATED
DEPRECIATION AND DEPRECIATION EXPENSE
FOR ADDITIONS SINCE ACQUISITION
For The Test Year Ended December 31, 2005**

Stipulation Exhibit I

Schedule 2-2(b)

Page 4 of 8

Line No.	Item	Plant In Service Per Public Staff (a)	Year Placed In Service [2] (b)	Life [1] (c)	Years in Service [4] (d)	Annual Depreciation [5] (e)	Accumulated Depreciation [6] (f)
95.	Sewer mains	4,263 [1]	1995	100	10.5	43	452
96.	Lift stations	4,176 [1]	1995	50	10.5	84	882
97.	Sewage treatment plant	22,438 [1]	1996	40	9.5	561	5,330
98.	Sewage service lines	4,315 [1]	1996	75	9.5	58	551
99.	Sewer mains	5,585 [1]	1996	100	9.5	56	532
100.	Lift stations	4,509 [1]	1996	50	9.5	90	855
101.	Lift stations	19,986 [1]	1997	50	8.5	400	3,400
102.	Sewage service lines	2,199 [1]	1997	75	8.5	29	247
103.	Sewer mains	10,886 [1]	1997	100	8.5	109	927
104.	Sewage treatment plant	643 [1]	1997	40	8.5	16	136
105.	Lift stations	205 [1]	1998	50	7.5	4	30
106.	Sewage service lines	7,141 [1]	1998	75	7.5	95	713
107.	Sewage treatment plant	74 [1]	1998	40	7.5	2	15
108.	Sewer mains	5,408 [1]	1998	100	7.5	54	405
109.	Lift stations	2,496 [1]	1999	50	6.5	50	325
110.	Sewage service lines	7,705 [1]	1999	75	6.5	103	670
111.	Sewage treatment plant	3,349 [1]	1999	40	6.5	84	546
112.	Sewer mains	4,509 [1]	1999	100	6.5	45	293
113.	Manholes	216 [1]	1999	50	6.5	4	26
114.	Lift stations	2,094 [1]	2000	50	5.5	42	231
115.	Sewage service lines	10,141 [1]	2000	75	5.5	135	743
116.	Manholes	260 [1]	2000	50	5.5	5	28
117.	Sewage treatment plant	810 [1]	2000	40	5.5	20	110
118.	Sewer mains	2,295 [1]	2000	100	5.5	23	127
119.	Sewage treatment plant	718 [1]	2001	40	4.5	18	81
120.	Sewage service lines	7,176 [1]	2001	75	4.5	96	432
121.	Sewer mains	666 [1]	2001	100	4.5	7	32
122.	Manholes	380 [1]	2001	50	4.5	8	36
123.	Lift stations	4,538 [1]	2002	50	3.5	91	319
124.	Sewage service lines	11,879 [1]	2002	75	3.5	158	553
125.	Sewer mains	516 [1]	2002	100	3.5	5	18
126.	Sewage treatment plant	5,340 [1]	2002	40	3.5	134	469
127.	Lift stations	3,666 [1]	2003	50	2.5	73	183

TRANSYLVANIA UTILITIES, INC.

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**CALCULATION OF ACCUMULATED
DEPRECIATION AND DEPRECIATION EXPENSE
FOR ADDITIONS SINCE ACQUISITION
For The Test Year Ended December 31, 2005**

Stipulation Exhibit I

Schedule 2-2(b)

Page 5 of 8

Line No.	Item	Plant In Service Per Public Staff (a)	Year Placed In Service [2] (b)	Life [1] (c)	Years In Service [4] (d)	Annual Depreciation [5] (e)	Accumulated Depreciation [6] (f)
128.	Sewage service lines	19,756 [1]	2003	75	2.5	263	658
129.	Force or vacuum mains	670 [1]	2003	100	2.5	7	18
130.	Sewer mains	6,267 [1]	2003	100	2.5	63	158
131.	Manholes	60 [1]	2003	50	2.5	1	3
132.	Sewage treatment plant	13,087 [1]	2003	40	2.5	327	818
133.	Organizational cost - Qualla Village	1,907 [1]	2003	40	2.5	48	120
134.	Total prior sewer plant	<u>346,045</u>				<u>6,519</u>	<u>58,536</u>
Common plant							
135.	Fully depreciated plant	135,798 [1]					135,798
136.	Undistributed plant	226 [1]	1992	15	13.5	15	203
137.	Tools and misc equipment	408 [1]	1992	20	13.5	20	270
138.	Tools and misc equipment	2,341 [1]	1993	20	12.5	117	1,463
139.	Tools and misc equipment	2,639 [1]	1994	20	11.5	132	1,518
140.	Tools and misc equipment	5,344 [1]	1995	20	10.5	267	2,804
141.	Office furniture and equipment	99 [1]	1996	10	9.5	10	95
142.	Tools and misc equipment	2,471 [1]	1996	20	9.5	124	1,178
143.	Tools and misc equipment	538 [1]	1997	20	8.5	27	230
144.	Tools and misc equipment	3,614 [1]	1998	20	7.5	181	1,358
145.	Tools and misc equipment	1,894 [1]	1999	20	6.5	95	618
146.	Tools and misc equipment	1,005 [1]	2000	20	5.5	50	275
147.	Tools and misc equipment	60 [1]	2001	20	4.5	3	14
148.	Mini computers	2,130 [1]	2002	5	3.5	426	1,491
149.	Tools and misc equipment	1,236 [1]	2002	20	3.5	62	217
150.	Transportation equipment	21,904 [1]	2002	4	3.5	5,476	19,166
151.	Tools and misc equipment	7,149 [1]	2003	4	2.5	1,787	4,468
152.	Communication equipment	488 [1]	2003	10	2.5	49	123
153.	Transportation equipment	265 [1]	2003	4	2.5	66	165
154.	Total prior common plant	<u>189,609</u>				<u>8,907</u>	<u>171,454</u>
155.	Additions from prior case (L79 + L134 + L154)	<u>1,942,647</u>				<u>44,320</u>	<u>382,998</u>

TRANSYLVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
**CALCULATION OF ACCUMULATED
DEPRECIATION AND DEPRECIATION EXPENSE
FOR ADDITIONS SINCE ACQUISITION**
For The Test Year Ended December 31, 2005

Stipulation Exhibit I
Schedule 2-2(b)
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Line No.	Item	Plant In Service Per Public Staff (a)	Year Placed In Service [2] (b)	Life [1] (c)	Years in Service [4] (d)	Annual Depreciation [5] (e)	Accumulated Depreciation [6] (f)
<u>Additions since last rate case:</u>							
<u>Water operations</u>							
156.	Wells and springs	115,826 [1]	2004	50	1.5	2,317	3,476
157.	Electric pump equipment	34,114 [1]	2004	10	1.5	3,411	5,117
158.	Transmission/distribution mains	236,553 [1]	2004	100	1.5	2,366	3,549
159.	Retirement transmission/distribution mains	(79,761) [1]				0	(79,761)
160.	Service lines	39,411 [1]	2004	50	1.5	788	1,182
161.	Structures and improvements	29,733 [2]	2004	50	1.5	595	893
162.	Water treatment equipment	504 [2]	2004	40	1.5	13	20
163.	Distribution reservoirs	1,682 [2]	2004	50	1.5	34	51
164.	Meters	9,203 [2]	2004	30	1.5	307	461
165.	Meters	8,919 [2]	2005	30	1.0	297	297
166.	Service lines	48,300 [2]	2005	50	1.0	966	966
167.	Transmission/distribution mains	198,922 [2]	2005	100	1.0	1,989	1,989
168.	Retirement transmission/distribution mains	(43,866) [2]		100		(439)	(43,866)
169.	Water treatment equipment	1,895 [2]	2005	40	1.0	47	47
170.	Electric pump equipment	5,503 [2]	2005	10	1.0	550	550
171.	Structures and improvements	2,317 [2]	2005	50	1.0	46	46
172.	Wells and springs	46,266 [2]	2005	50	1.0	925	925
173.	Distribution reservoirs	296 [2]	2005	50	1.0	6	6
174.	Power generation	103,147 [2]	2006	20 [3]	1.0	5,157	5,157
175.	Wells and springs	78,849 [2]	2006	50	1.0	1,577	1,577
176.	Structures and improvements	750 [2]	2006	50	1.0	15	15
177.	Retirement structures and improvements	(550) [2]		50		(11)	(550)
178.	Electric pump equipment	1,746 [2]	2006	10	1.0	175	175
179.	Retirement electric pump equipment	(1,373) [2]		10		(137)	(1,373)
180.	Water treatment equipment	1,179 [2]	2006	40	1.0	29	29
181.	Retirement water treatment-equipment	(400) [2]		40		(10)	(400)
182.	Distribution reservoirs	1,649 [2]	2006	50	1.0	33	33
183.	Retirement distribution reservoirs	(350) [2]		50		(7)	(350)
184.	Transmission/distribution mains	10,251 [2]	2006	100	1.0	103	103
185.	Retirement transmission/distribution mains	(6,525) [2]		100		(65)	(6,525)
186.	Service lines	6,459 [2]	2006	50	1.0	129	129
187.	Retirement service lines	(2,225) [2]		50		(45)	(2,225)
188.	Total additions to water plant	<u>848,424</u>				<u>21,161</u>	<u>(108,257)</u>

TRANSYLVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
**CALCULATION OF ACCUMULATED
DEPRECIATION AND DEPRECIATION EXPENSE
FOR ADDITIONS SINCE ACQUISITION**
For The Test Year Ended December 31, 2005

Stipulation Exhibit I
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No.	Item	Plant In Service Per Public Staff (a)	Year Placed In Service [2] (b)	Life [1] (c)	Years in Service [4] (d)	Annual Depreciation [5] (e)	Accumulated Depreciation [6] (f)
<u>Sewer operations</u>							
189.	Sewage treatment plant	23,824 [1]	2004	40	1.5	596	894
190.	Lift stations	28,410 [1]	2004	50	1.5	568	852
191.	Retirement-lift station	(10,848) [1]		50		0	(10,848)
192.	Sewage service lines	19,133 [1]	2004	75	1.5	255	383
193.	Sewer mains	5,270 [1]	2004	100	1.5	53	80
194.	Manholes	33,026 [2]	2004	50	1.5	661	992
195.	Lift stations	36,566 [2]	2005	50	1.0	731	731
196.	Sewer mains	4,442 [2]	2005	100	1.0	44	44
197.	Force or vacuum mains	355 [2]	2005	100	1.0	4	4
198.	Sewage service lines	23,631 [2]	2005	75	1.0	315	315
199.	Sewage treatment plant	8,151 [2]	2005	40	1.0	204	204
200.	Manholes	365 [2]	2005	50	1.0	7	7
201.	Power generation-sewer	28,211 [2]	2006	20 [3]	1.0	1,411	1,411
202.	Retirement-lift station generator	(21,158) [2]		50		(423)	(21,158)
203.	Force or vacuum mains	243,815 [2]	2006	100	1.0	2,438	2,438
204.	Retirement-force or vacuum mains	(182,861) [2]		100		(1,829)	(182,861)
205.	Lift stations	956 [2]	2006	50	1.0	19	19
206.	Retirement lift stations	(250) [2]		50		(5)	(250)
207.	Sewage service lines	1,470 [2]	2006	75	1.0	20	20
208.	Force or vacuum mains	731 [2]	2006	100	1.0	7	7
209.	Retirement force or vacuum mains	(375) [2]		100		(4)	(375)
210.	Manholes	1,728 [2]	2006	50	1.0	35	35
211.	Sewage treatment plant	6,910 [2]	2006	40	1.0	173	173
212.	Retirement sewage treatment plant	(1,446) [2]		40		(36)	(1,446)
213.	Total additions to sewer plant	<u>250,056</u>				<u>5,244</u>	<u>(208,329)</u>
<u>Common plant</u>							
214.	Mini computers	271 [1]	2004	5	1.5	54	81
215.	Tools and misc equipment	8,984 [1]	2004	20	1.5	449	674
216.	Communication equipment	3,550 [1]	2004	10	1.5	355	533
217.	Transportation equipment	4,757 [2]	2004	4	1.5	1,189	1,784
218.	Tools and misc equipment	2,000 [2]	2005	20	1.0	100	100
219.	Transportation equipment	1,562 [2]	2005	4	1.0	391	391

TRANSYLVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
CALCULATION OF ACCUMULATED
DEPRECIATION AND DEPRECIATION EXPENSE
FOR ADDITIONS SINCE ACQUISITION
For The Test Year Ended December 31, 2005

Stipulation Exhibit I
Schedule 2-2(b)
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<u>No.</u>	<u>Item</u>	<u>Plant In Service Per Public Staff</u> (a)	<u>Year Placed In Service</u> [2] (b)	<u>Life</u> [1] (c)	<u>Years in Service</u> [4] (d)	<u>Annual Depreciation</u> [5] (e)	<u>Accumulated Depreciation</u> [6] (f)
220.	Power generation-common	32,088 [2]	2006	20 [3]	1.0	1,604	1,604
221.	Retirement-power generation-common	(24,066) [2]		20 [3]		(1,203)	(24,066)
222.	Transportation equipment	21,137 [2]	2006	4	1.0	5,284	5,284
223.	Total additions to common plant	<u>50,283</u>				<u>8,223</u>	<u>(13,615)</u>
224.	Totals (L155 + L188 + L213 + L223)	<u>\$3,091,410</u>				<u>\$78,948</u>	<u>\$52,797</u>

[1] Based on last general rate case, Docket No. W-1012, Sub 5, unless otherwise footnoted.

[2] Per review of Company records.

[3] Provided by Public Staff Engineer Tweed.

[4] Based on year placed in service using half year convention.

[5] Column (a) divided by Column (c), unless fully depreciated.

[6] Column (d) x Column (e), unless fully depreciated.

TRANSYLVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
**CALCULATION OF CONTRIBUTIONS IN AID OF
CONSTRUCTION, ACCUMULATED AMORTIZATION,
AND AMORTIZATION EXPENSE**
For The Test Year Ended December 31, 2005

Stipulation Exhibit I
Schedule 2-3

Line No.	Item	Water Operations (a)	Sewer Operations (b)	Combined Operations (c) [4]
1.	CIAC as of 12/31/03	(\$341,771) [1]	(\$241,429) [1]	(\$583,200)
2.	Plus: CIAC additions in 2004	<u>(25,200) [2]</u>	<u>(13,600) [2]</u>	<u>(38,800)</u>
3.	CIAC as of 12/31/04	<u>(366,971)</u>	<u>(255,029)</u>	<u>(622,000)</u>
4.	CIAC amortization rate	2.46% [3]	2.54% [3]	
5.	Annual amortization for 2004 (Line 3 x Line 4)	<u>(9,027)</u>	<u>(6,478)</u>	<u>(15,505)</u>
6.	CIAC as of 12/31/04	(366,971)	(255,029)	(622,000)
7.	Plus: CIAC additions in 2005	<u>(22,200) [2]</u>	<u>(11,200) [2]</u>	<u>(33,400)</u>
8.	CIAC as of 12/31/05	<u>(389,171)</u>	<u>(266,229)</u>	<u>(655,400)</u>
9.	CIAC amortization rate	2.46% [3]	2.54% [3]	
10.	Annual amortization for 2005 (Line 8 x Line 9)	<u>(9,574)</u>	<u>(6,762)</u>	<u>(16,336)</u>
11.	Accumulated amortization at 12/31/03	59,680 [1]	45,434 [1]	105,114
12.	Amortization for 2004 (Line 5)	9,027	6,478	15,505
13.	Amortization for 2005 (Line 10)	<u>9,574</u>	<u>6,762</u>	<u>16,336</u>
14.	Accumulated amortization at 12/31/05	<u>78,281</u>	<u>58,674</u>	<u>136,955</u>
15.	CIAC, net of amortization (Line 8 + Line 14)	<u><u>(\$310,890)</u></u>	<u><u>(\$207,555)</u></u>	<u><u>(\$518,445)</u></u>

- [1] Based on last general rate case, Docket No. W-1012, Sub 5.
[2] Based on information provided by Company.
[3] Calculated based on depreciation rates for plant in service.
[4] Column (a) plus Column (b).

TRANSYLVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
NET OPERATING INCOME FOR A RETURN
For The Test Year Ended December 31, 2005

Stipulation Exhibit I
Schedule 3

Water and Sewer Combined

		Present Rates			Company Proposed Rates		Stipulated	
Line No.	Item	Per Application [1] (a)	Public Staff Adjustments [1] (b)	Per Public Staff [1] (c)	Net Company Increase [1] (d)	Operations After Rate Increase [1] (e)	Net Increase [1] (f)	Operations After Rate Increase [1] (g)
<u>Operating Revenues:</u>								
1.	Service revenues	\$594,778	\$14,918	\$609,696	\$669,518	\$1,279,214	\$259,478	\$869,172
2.	Availability revenues	88,080	(3,360)	84,720	0	84,720	0	84,720
3.	Miscellaneous revenues	37,355	(1,854)	35,501	0	35,501	0	35,501
4.	Uncollectible accounts	(32,969)	23,789	(9,180)	0	(9,180)	0	(9,180)
5.	Total operating revenues	687,244	33,493	720,737	669,518	1,390,255	259,476	980,213
<u>Operating & Maintenance Expenses:</u>								
6.	Electric power	78,012	(406)	77,606	0	77,606	0	77,606
7.	Chemicals	15,355	1,205	16,560	0	16,560	0	16,560
8.	Salaries and wages	186,024	(17,347)	168,677	0	168,677	0	168,677
9.	Outside services - direct	3,710	493	4,203	0	4,203	0	4,203
10.	Employee benefits	40,572	(1,405)	39,167	0	39,167	0	39,167
11.	Insurance - other	19,665	(1,679)	17,986	0	17,986	0	17,986
12.	Rents	3,398	421	3,819	0	3,819	0	3,819
13.	Office supplies	3,702	392	4,094	0	4,094	0	4,094
14.	Billing & customer service	11,234	24	11,258	0	11,258	0	11,258
15.	Office utilities	10,250	(262)	9,988	0	9,988	0	9,988
16.	Office maintenance	1,483	62	1,545	0	1,545	0	1,545
17.	Miscellaneous expenses	7,617	(97)	7,520	0	7,520	0	7,520
18.	Maintenance - water plant	53,997	(14,316)	39,681	0	39,681	0	39,681
19.	Maintenance - sewer plant	12,385	1,065	13,450	0	13,450	0	13,450
20.	Maintenance - sludge hauling/rodding	27,424	11,129	38,553	0	38,553	0	38,553
21.	Maintenance - common plant	15,207	10,846	26,053	0	26,053	0	26,053
22.	Operators expense	3,316	3,264	6,580	0	6,580	0	6,580
23.	Water testing	3,341	130	3,471	0	3,471	0	3,471
24.	Sewer testing	3,343	1,151	4,494	0	4,494	0	4,494
25.	Equipment and chemical testing	494	317	811	0	811	0	811
26.	Transportation expense	27,796	(11,245)	16,551	0	16,551	0	16,551
27.	Rate case expense	65,376	(33,196)	32,180	0	32,180	0	32,180
28.	WSC expense adjustment	0	(11,584)	(11,584)	0	(11,584)	0	(11,584)
29.	CWS office expense adjustment	0	(1,275)	(1,275)	0	(1,275)	0	(1,275)
30.	Total O&M expenses	593,701	(62,313)	531,388	0	531,388	0	531,388
31.	Depreciation expense	141,634	(35,141)	106,493	0	106,493	0	106,493
32.	Amortization expense	(15,890)	(446)	(16,336)	0	(16,336)	0	(16,336)
33.	Property taxes	4,765	(2,524)	2,241	0	2,241	0	2,241
34.	Payroll taxes	18,682	(1,387)	17,295	0	17,295	0	17,295
35.	Regulatory fee	864	1	865	804	1,669	311	1,176
36.	Gross receipts tax	33,862	39	33,901	32,656	66,557	13,021	46,922
37.	State income tax	23,801	(22,788)	1,013	39,090	40,103	12,186	13,199
38.	Federal income tax	95,297	(90,758)	4,539	176,641	181,180	54,991	59,530
39.	Total operating revenue deductions	896,716	(215,317)	681,399	249,191	930,590	80,509	761,908
40.	Net operating income for return	(\$209,472)	\$248,810	\$39,338	\$420,327	\$459,665	\$178,967	\$218,305

[1] Stipulation Exhibit I, Schedule 3(a) plus Schedule 3(b).

TRANSYLVANIA UTILITIES, INC.
Docket No. W-1012, Sub 7
NET OPERATING INCOME FOR A RETURN
For The Test Year Ended December 31, 2005

Stipulation Exhibit I
Schedule 3(a)

Water Operations

Line No.	Item	Present Rates			Company Proposed Rates		Stipulated	
		Per Application	Public Staff Adjustments [1]	Per Public Staff [1]	Net Company Increase [1]	Operations After Rate Increase [1]	Net Increase [1]	Operations After Rate Increase [1]
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
<u>Operating Revenues:</u>								
1.	Service revenues	\$384,577	\$10,825	\$395,402	\$375,769	\$771,171	\$127,354	\$522,756
2.	Availability revenues	58,560	(2,280)	56,280	0	56,280	0	56,280
3.	Miscellaneous revenues	24,407	(2,255)	22,152	0	22,152	0	22,152
4.	Uncollectible accounts	(19,995)	13,335	(6,660)	0	(6,660)	0	(6,660)
5.	Total operating revenues	447,549	19,625	467,174	375,769	842,943	127,354	594,528
<u>Operating & Maintenance Expenses:</u>								
6.	Electric power	42,632	(338)	42,294	0	42,294	0	42,294
7.	Chemicals	2,882	549	3,431	0	3,431	0	3,431
8.	Salaries and wages	114,034	(10,466)	103,568	0	103,568	0	103,568
9.	Outside services - direct	1,855	726	2,581	0	2,581	0	2,581
10.	Employee benefits	24,871	(822)	24,049	0	24,049	0	24,049
11.	Insurance - other	9,223	1,820	11,043	0	11,043	0	11,043
12.	Rents	1,699	646	2,345	0	2,345	0	2,345
13.	Office supplies	2,269	245	2,514	0	2,514	0	2,514
14.	Billing & customer service	6,886	41	6,927	0	6,927	0	6,927
15.	Office utilities	6,283	(150)	6,133	0	6,133	0	6,133
16.	Office maintenance	909	40	949	0	949	0	949
17.	Miscellaneous expenses	4,669	(52)	4,617	0	4,617	0	4,617
18.	Maintenance - water plant	53,997	(14,316)	39,681	0	39,681	0	39,681
19.	Maintenance - sewer plant	0	0	0	0	0	0	0
20.	Maintenance - sludge hauling/rodding	0	0	0	0	0	0	0
21.	Maintenance - common plant	7,132	991	8,123	0	8,123	0	8,123
22.	Operators expense	1,658	2,382	4,040	0	4,040	0	4,040
23.	Water testing	3,341	130	3,471	0	3,471	0	3,471
24.	Sewer testing	0	0	0	0	0	0	0
25.	Equipment and chemical testing	247	251	498	0	498	0	498
26.	Transportation expense	13,898	(3,736)	10,162	0	10,162	0	10,162
27.	Rate case expense	32,688	(12,929)	19,759	0	19,759	0	19,759
28.	WSC expense adjustment	0	(7,113)	(7,113)	0	(7,113)	0	(7,113)
29.	CWS office expense adjustment	0	(783)	(783)	0	(783)	0	(783)
30.	Total O&M expenses	331,173	(42,884)	288,289	0	288,289	0	288,289
31.	Depreciation expense	90,696	(19,744)	70,952	0	70,952	0	70,952
32.	Amortization expense	(9,317)	(257)	(9,574)	0	(9,574)	0	(9,574)
33.	Property taxes	2,383	(1,007)	1,376	0	1,376	0	1,376
34.	Payroll taxes	11,452	(833)	10,619	0	10,619	0	10,619
35.	Regulatory fee	561	0	561	451	1,012	152	713
36.	Gross receipts tax	18,702	(15)	18,687	15,031	33,718	5,094	23,781
37.	State income tax	11,163	(10,150)	1,013	24,860	25,873	8,426	9,439
38.	Federal income tax	44,694	(40,155)	4,539	111,363	115,902	37,743	42,282
39.	Total operating revenue deductions	501,507	(115,045)	386,462	151,705	538,167	51,415	437,877
40.	Net operating income for return	(\$53,958)	\$134,670	\$80,712	\$224,064	\$304,776	\$75,939	\$156,651

[1] Agreed to by the parties.

TRANSYLVANIA UTILITIES, INC.

Docket No. W-1012, Sub 7

NET OPERATING INCOME FOR A RETURN

For The Test Year Ended December 31, 2005

Stipulation Exhibit I

Schedule 3(b)

Sewer Operations

Line No.	Item	Present Rates			Company Proposed Rates		Stipulated	
		Per Application	Public Staff Adjustments [1]	Per Public Staff [1]	Net Company Increase [1]	Operations After Rate Increase [1]	Net Increase [1]	Operations After Rate Increase [1]
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
Operating Revenues:								
1.	Service revenues	\$210,201	\$4,093	\$214,294	\$293,749	\$508,043	\$132,122	\$346,416
2.	Availability revenues	29,520	(1,080)	28,440	0	28,440	0	28,440
3.	Miscellaneous revenues	12,948	401	13,349	0	13,349	0	13,349
4.	Uncollectible accounts	(12,974)	10,454	(2,520)	0	(2,520)	0	(2,520)
5.	Total operating revenues	239,695	13,868	253,563	293,749	547,312	132,122	365,685
Operating & Maintenance Expenses:								
6.	Electric power	35,380	(68)	35,312	0	35,312	0	35,312
7.	Chemicals	12,473	656	13,129	0	13,129	0	13,129
8.	Salaries and wages	71,990	(6,881)	65,109	0	65,109	0	65,109
9.	Outside services - direct	1,855	(233)	1,622	0	1,622	0	1,622
10.	Employee benefits	15,701	(583)	15,118	0	15,118	0	15,118
11.	Insurance - other	10,442	(3,499)	6,943	0	6,943	0	6,943
12.	Rents	1,699	(225)	1,474	0	1,474	0	1,474
13.	Office supplies	1,433	147	1,580	0	1,580	0	1,580
14.	Billing & customer service	4,348	(17)	4,331	0	4,331	0	4,331
15.	Office utilities	3,967	(112)	3,855	0	3,855	0	3,855
16.	Office maintenance	574	22	596	0	596	0	596
17.	Miscellaneous expenses	2,948	(45)	2,903	0	2,903	0	2,903
18.	Maintenance - water plant	0	0	0	0	0	0	0
19.	Maintenance - sewer plant	12,385	1,065	13,450	0	13,450	0	13,450
20.	Maintenance - sludge hauling/rodding	27,424	11,129	38,553	0	38,553	0	38,553
21.	Maintenance - common plant	8,075	9,855	17,930	0	17,930	0	17,930
22.	Operators expense	1,658	882	2,540	0	2,540	0	2,540
23.	Water testing	0	0	0	0	0	0	0
24.	Sewer testing	3,343	1,151	4,494	0	4,494	0	4,494
25.	Equipment and chemical testing	247	66	313	0	313	0	313
26.	Transportation expense	13,898	(7,509)	6,389	0	6,389	0	6,389
27.	Rate case expense	32,688	(20,267)	12,421	0	12,421	0	12,421
28.	WSC expense adjustment	0	(4,471)	(4,471)	0	(4,471)	0	(4,471)
29.	CWS office expense adjustment	0	(492)	(492)	0	(492)	0	(492)
30.	Total O&M expenses	262,528	(19,429)	243,099	0	243,099	0	243,099
31.	Depreciation expense	50,938	(15,397)	35,541	0	35,541	0	35,541
32.	Amortization expense	(6,573)	(189)	(6,762)	0	(6,762)	0	(6,762)
33.	Property taxes	2,382	(1,517)	865	0	865	0	865
34.	Payroll taxes	7,230	(554)	6,676	0	6,676	0	6,676
35.	Regulatory fee	303	1	304	353	657	159	463
36.	Gross receipts tax	15,160	54	15,214	17,625	32,839	7,927	23,141
37.	State income tax	12,638	(12,638)	0	14,230	14,230	3,760	3,760
38.	Federal income tax	50,603	(50,603)	0	65,278	65,278	17,248	17,248
39.	Total operating revenue deductions	395,209	(100,272)	294,937	97,486	392,423	29,094	324,031
40.	Net operating income for return	(\$155,514)	\$114,140	(\$41,374)	\$196,263	\$154,889	\$103,028	\$61,654

[1] Agreed to by the parties